

FDIC State Profile

Spring 2005

Maryland and Washington, D.C.

For the sixth consecutive year, Maryland's 2004 job growth matched or exceeded the nation.

- Employment growth in the **Washington, D.C.** metropolitan area, which includes parts of **Maryland**, **Northern Virginia**, and **West Virginia**, significantly outperformed the nation in 2004 (See Chart 1). Strong job growth in the metropolitan area is reflective of the multiplier effect of federal government spending. Consistent with economic vitality, business and recreational travel has also increased, resulting in employment gains in the area's hotel industry.
- The federal government also has been a key driver of employment growth in **Baltimore**, **Calvert**, and the **Bethesda** areas. Increased government spending has contributed to growth in consulting, accounting and computer-related jobs.

Robust demographics in the Baltimore – Washington, D.C. Corridor reflect a booming economy.

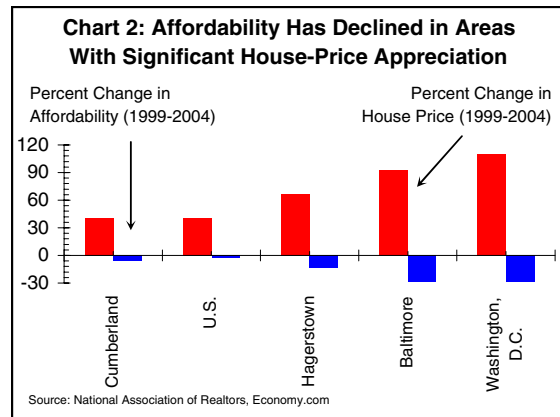
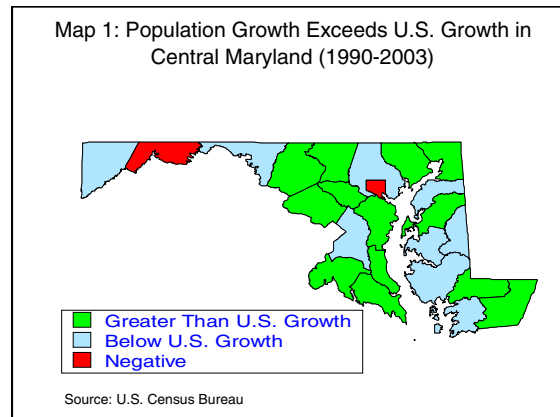
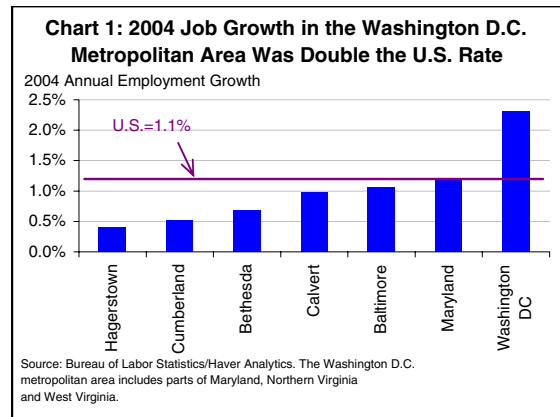
- Increased job opportunities have attracted in-migration around Baltimore and Washington, D.C. (See Map 1). The influx of population has stimulated local residential and business development.

As prices climb, housing affordability has declined across Maryland and Washington D.C.

- House price appreciation rates remained in double digits during 2004 and significantly increased from already high 2003 levels in Baltimore and Washington D.C.
- As prices have appreciated over the past five years, home affordability has declined across Maryland; this decline has exceeded the national average (See Chart 2).¹

Maryland and Washington, D.C. FDIC-insured community banks reported stable profitability in 2004.

- At 0.83 percent, the median return-on-assets reported by the area's community banks in 2004 was unchanged from



¹Affordability index is defined as when a median family income qualifies for an 80 percent mortgage on a median-priced single-family home.

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the 2003 level.² Loan loss provisions declined slightly as credit quality ratios remained favorable across loan categories.

The effect of interest rate changes on net interest margins (NIMs) will be a key trend to watch in 2005.

- Community bank NIMs increased slightly in the second half of 2004 following steepening in the yield curve earlier in the year. In contrast, NIMs of residential lenders declined as the yield curve flattened in the second half of 2004 (See Chart 3).
- A larger share of Maryland banks may experience NIM compression if the yield curve flattens because at 32 percent, the state's concentration of residential lenders is almost three times the nation's. Residential lender NIMs may be more vulnerable to yield curve flattening because these lenders typically rely heavily on the spread between long- and short-term interest rates.³

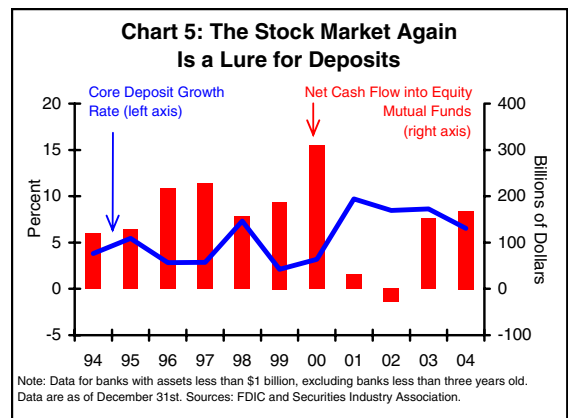
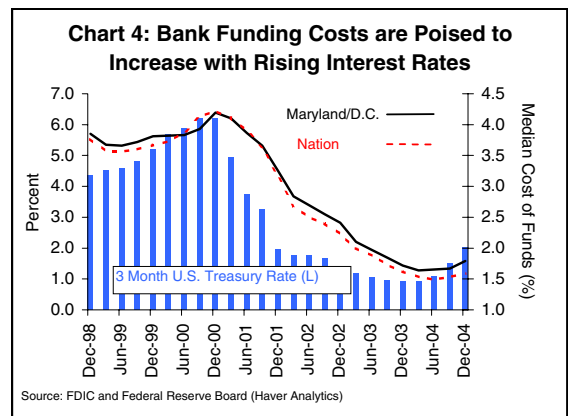
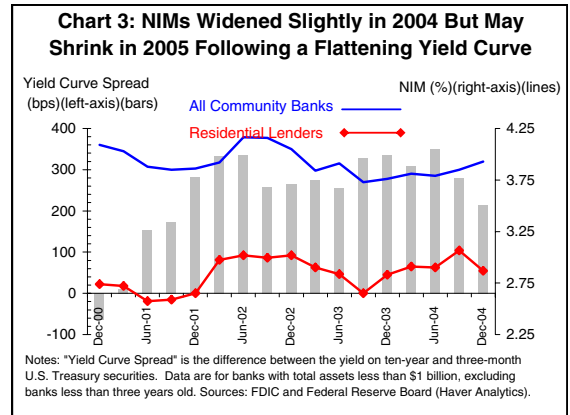
Real estate-related loans led loan growth rates in 2004, though commercial and industrial (C&I) loan growth was also strong.

- Reflective of strong growth in housing markets, construction and home equity loans led community bank loan growth in 2004. Construction and development (C&D) loans grew 38.7 percent in 2004 with more pronounced growth among banks headquartered on **Maryland's eastern shore**. Home construction has been particularly strong along the state's eastern shore because of a spill-over effect from higher priced urban areas and increased demand for second homes. C&D loan quality remained favorable.
- C&I loan growth increased slightly to 18.2 percent in 2004 compared with 16.8 percent growth in 2003.⁴ Growth in C&I loans should help some banks offset higher funding costs by contributing to higher asset yields.

Rising interest rates and competition for deposits may pressure core deposit pricing.

- After declining since 2001, funding costs increased from record lows in 2004. Funding costs, which typically lag short-term interest rates, are poised to increase in 2005, following the recent rise in short-term rates (See Chart 4).

- After reaching a high in 2002, core deposit growth rates have slowed as cash flow into equity mutual funds has increased (See Chart 5). Competition from equity markets and other financial intermediaries, including banks and credit unions, may contribute to increases in deposit rates and changes in bank assumptions regarding deposit rate sensitivity.



²Analysis is for community banks unless otherwise noted. "Community banks" are defined as insured institutions that hold less than \$1 billion in total assets. This definition excludes credit card banks and banks less than three years old.

³"Residential mortgage lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage-backed securities.

⁴For information on the nationwide outlook for C&I lending, see the FDIC Outlook – "In Focus This Quarter: Commercial Lending at FDIC-Insured Institutions," Fall 2004, <http://www.fdic.gov/bank/analytical/regional/ro20043q/na/index.html>.

Maryland and Washington, D.C. at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	0.6%	0.2%	-0.2%	2.3%
Manufacturing (6%)	-1.1%	-5.6%	-7.4%	-5.3%	-0.1%
Other (non-manufacturing) Goods-Producing (7%)	4.1%	3.5%	-0.2%	2.1%	5.3%
Private Service-Producing (69%)	1.9%	1.4%	0.7%	-0.5%	2.6%
Government (18%)	1.5%	-1.1%	1.2%	2.0%	1.2%
Unemployment Rate (% of labor force)	4.2	4.5	4.4	4.4	3.7

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	5.2%	3.4%	3.7%	8.5%
Single-Family Home Permits	-0.6%	2.3%	-2.9%	-6.2%	8.5%
Multifamily Building Permits	26.1%	23.8%	-24.6%	102.8%	-53.0%
Existing Home Sales	10.1%	14.2%	3.4%	5.4%	9.8%
Home Price Index	18.6%	13.3%	11.4%	8.8%	6.6%
Bankruptcy Filings per 1000 people (quarterly level)	1.24	1.42	1.61	1.52	1.39

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	122	127	134	138	144
Total Assets (in millions)	47,126	43,562	59,341	57,821	56,171
New Institutions (# < 3 years)	6	3	5	6	8
Subchapter S Institutions	4	2	2	2	2

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.93	1.14	1.51	1.84	1.60
ALLL/Total Loans (median %)	0.94	1.00	1.11	1.12	1.09
ALLL/Noncurrent Loans (median multiple)	2.20	1.82	1.85	1.70	1.85
Net Loan Losses / Total Loans (median %)	0.01	0.04	0.04	0.04	0.03

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.27	9.30	9.78	10.23	10.17
Return on Assets (median %)	0.83	0.84	0.77	0.64	0.82
Pretax Return on Assets (median %)	1.17	1.17	1.21	0.98	1.21
Net Interest Margin (median %)	3.74	3.67	3.94	3.93	4.17
Yield on Earning Assets (median %)	5.32	5.54	6.39	7.39	7.93
Cost of Funding Earning Assets (median %)	1.65	1.93	2.58	3.58	3.88
Provisions to Avg. Assets (median %)	0.06	0.05	0.07	0.09	0.08
Noninterest Income to Avg. Assets (median %)	0.49	0.60	0.58	0.51	0.52
Overhead to Avg. Assets (median %)	2.75	2.68	2.76	2.79	2.88

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	69.6	66.8	66.3	68.6	70.2
Noncore Funding to Assets (median %)	20.4	18.9	18.3	15.8	15.7
Long-term Assets to Assets (median %, call filers)	19.0	20.6	17.6	16.3	15.5
Brokered Deposits (number of institutions)	33	22	25	25	22
Brokered Deposits to Assets (median % for those above)	3.3	5.3	3.9	2.9	3.1

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	65.6	55.2	52.5	51.9	44.4
Commercial Real Estate	242.6	237.1	195.9	173.5	172.2
Construction & Development	50.8	41.9	30.3	26.9	26.3
Multifamily Residential Real Estate	2.9	2.3	3.8	2.6	2.6
Nonresidential Real Estate	137.1	134.5	134.7	124.0	106.5
Residential Real Estate	318.8	327.9	291.7	307.2	321.1
Consumer	19.8	19.5	19.4	26.7	26.8
Agriculture	19.6	21.0	25.1	25.4	34.7

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Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Baltimore-Towson, MD	88	40,459	< \$250 mil.	78 (63.9%)
Cumberland, MD-WV	7	800	\$250 mil. to \$1 bil.	34 (27.9%)
			\$1 bil. to \$10 bil.	10 (8.2%)
			> \$10 bil.	0 (0%)